



Center for
Financial Services Innovation

An Affiliate of ShoreBank Corporation

Mobile Opportunities: New Customers and the Underbanked

FRB Mobile Payments Forum

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What CFSI Does: A Crash Course

CFSI is transforming the financial services marketplace in America to better serve underbanked consumers and help them achieve financial prosperity.

Our Work

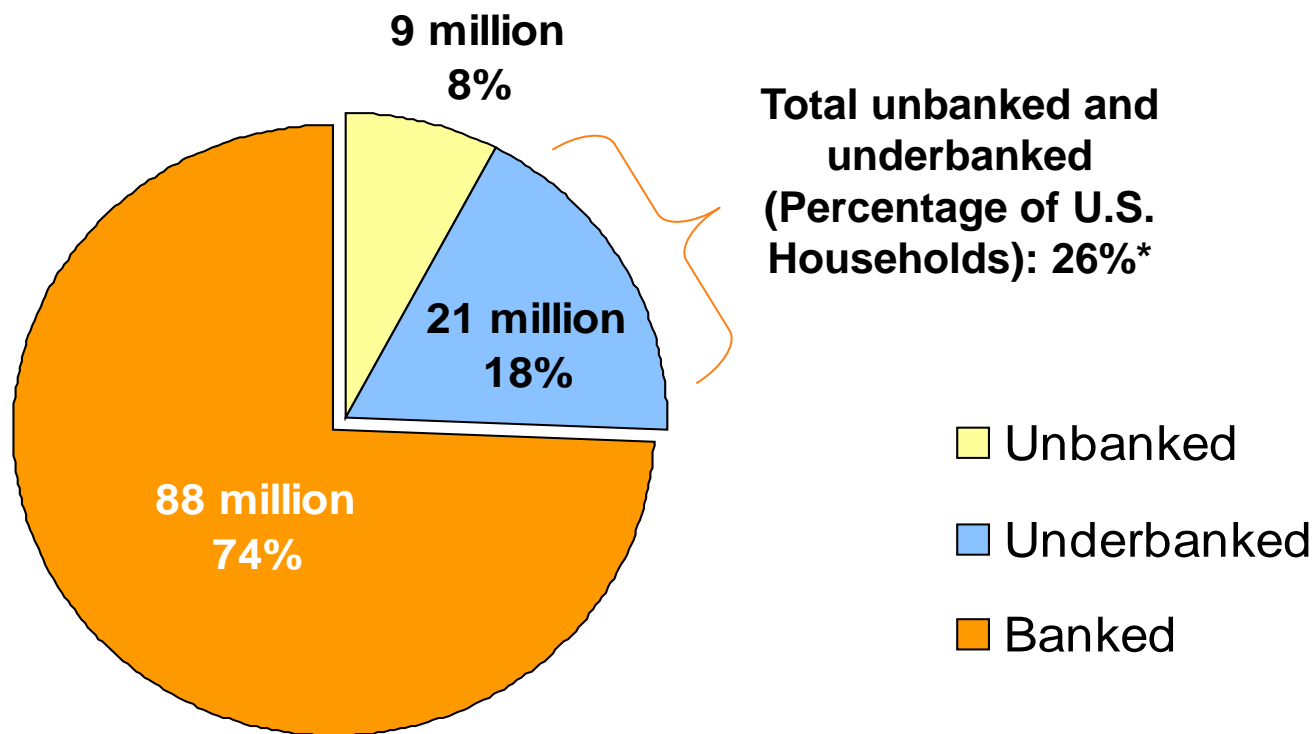
Inform: We develop “on-the-ground” market and consumer intelligence to spur innovation, providing thought leadership, insight and actionable information.

Connect: We help build new cross-sector relationships with top leaders and changemakers through our industry roundtables, conferences and other events.

Invest: We find, seed and nurture leading ideas and innovation with funding, advice and connections.

Underbanked Opportunity: Large Target Market

FDIC survey confirms CFSI finding that 21 million households are underbanked; FDIC identifies 9 million unbanked households



**Source: FDIC*



Mobile Banking and the Underbanked

In the U.S., mobile penetration is high and growing

- According to TowerGroup, the U.S. mobile subscriber base amounts to 88% of the population (271 million customers)
- Penetration is expected to reach 97% by 2013

While online banking usage is skewed by factors such as income, education, and race, mobile phone usage is consistently high among all demographic and socioeconomic groups

- According to Mintel, 40% of those who earn less than \$25,000 a year have a cell phone

The underbanked are uniquely positioned to benefit from mobile financial services

- Underbanked are more likely to be managing cash flow tightly
 - Underbanked have greater need for quick feedback on account balances
 - Mobile represents a means for entering the mainstream financial system
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Mobile Banking and the Underbanked

The Underbanked demand **Control**, **Convenience**, and **Reliability** from financial services; these demands can be met through mobile banking services

	<i>Consumer Need</i>	<i>Mobile Solution</i>
Control	Underbanked consumers need to manage cash flow day-to-day, in real time	Most popular mobile services are balance management, deposit alerts
Convenience	64% of underbanked rate location “extremely important” when choosing a financial institution*	Mobile services provide easy access to accounts any time, anywhere
Reliability	Underbanked place high value on fee transparency and transaction security	Mobile services help users avoid overdraft fees by providing instantaneous feedback

*Source: CFSI Underbanked Consumer Study 2008



Mobile Financial Services for the Underbanked

Several mobile applications are equipped to address tangible needs for the underbanked.

- **Customer communication:** Balance alerts are particularly relevant to the underbanked, who need to carefully manage cash flow. Other important applications exist for financial education via text message.
 - **Payments:** P-2-P, P-2-Merchant, and NFC payments may be luxuries for banked consumers, but for the underbanked, mobile payments represent a safer alternative to cash and a means for entering the financial mainstream
 - **Bill pay and expedited bill pay:** Mobile payments can make bill pay much more convenient for consumers who typically deal in cash
 - **Remittances:** Consumers can use a mobile phone to safely and conveniently send money internationally
 - **Account access:** Signing up for accounts through a mobile phone can help alleviate the anxiety the underbanked often feel about visiting banks in person. Access via mobile phone is also a convenience for customers for whom time may be short and transportation may be difficult.
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International Lessons

- International examples demonstrate successful mobile implementation for financially underserved consumers.
 - Important differences between these markets and the U.S. make some comparisons difficult.
 - Significant pre-existing mobile and banking infrastructure in the U.S.
 - Relative convenience and availability of various mainstream and alternative financial services in the U.S. compared to developing markets
 - Heterogeneity of the American un- and underbanked market
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Kenya: Safaricom's M-Pesa

- Before launch of M-Pesa, Safaricom possessed 79% of the Kenyan mobile market*
- Large network of M-Pesa agents register new users and provide customer support and product information
- Mobile capabilities include money transfer, account management, airtime purchase, deposits, and withdrawals
- **Key lessons:** Broad agent network demonstrates importance of human element in helping customers use service

South Africa: WIZZIT

- Transaction banking services available to unbanked, low-income clients
- Customers use mobile phone and MasterCard debit card to conduct transactions; charges rendered per transaction
- Service marketed and sold through WIZZKids
- **Key lessons:** Reaching the underbanked through community members; transparent fee structure and pairing with prepaid card enable more sophisticated use of financial services

*Source: CGAP. *Mobile operator-centric payment schemes*



Mobile Innovators in the U.S.

mVia



- Remittance company offering subscription model for mobile money transfers
- First month \$9.95, then \$14.95; unlimited transfers
- Opportunity to bring customers into the financial mainstream; getting them closer to being banked
- Reaches a customer base that overlaps significantly with the underbanked

Trumpet Mobile



- Array of financial products and services available to underbanked via mobile
- Sold through Walgreens, RadioShack, and Casey's General Stores
- Prepaid phone packaged and sold with prepaid card, which is how consumers load funds



Consumer-centric challenges:

- Service providers must supply education to underbanked consumers to make them more comfortable with mobile financial services.
- Offerings must present a significant value proposition to customers, providing an incentive to change established behaviors. Simply adapting an existing online platform for mobile will be insufficient.
- Providers need to overcome trust issues among underbanked consumers.

Industry-centric challenges:

- Financial services providers and mobile operators are heavily entrenched in their ways of conducting business and lack incentive to work together.
 - Many large banks are taking a defensive approach, providing service to existing customers rather than using mobile as an acquisition channel. This will have to change for mobile to become a more significant revenue driver.
 - There are many players in the payment ecosystem: merchant, merchant-acquiring bank, card issuer, association. Each of these is currently part of the revenue chain and likely are not willing to give up their piece.
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Paradigm Changers/Creators in Other Areas

Personal Financial Management



Alternative Payment Channels



Online Brokerage Firms



Prepaid



It may take a third-party provider to jump ahead of banks and telecoms and create a new paradigm for mobile financial services



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